

REVENUE OUTLOOK

ECONOMIC OUTLOOK

National Economy and Key Points from the Global Insight Outlook

The sources of the current weakness in the national economy play an important role in the performance of the Albuquerque and New Mexico economies. The national economy experienced a recession in the second and third quarters of calendar year 2001. After the terrorist attacks of September 11, the economy has expanded, but the jobless rate increased. Even though the economy has come out of the recession and had respectable growth, it is clear that the terrorist attacks had a strong negative impact. Consumer confidence hit a 9 year low in October 2002. The current downturn is manufacturing based, with layoffs and reductions in investment spreading to the rest of the economy. The hardest hit industry is telecommunications. The "dot.com" boom led to over investment in communications assets, leaving many telecommunications companies struggling to pay off large debts in an unprofitable environment. In general, manufacturing capacity utilization is low, and investment in capital equipment is very weak. While this sector of investment and construction is weak, the housing market has boomed. Nationally, housing starts have been above expectations and the average price of homes has increased. This is in part due to low interest rates, and movement of investment from the stock market. The following presents some detail on the economy; explanatory charts are at the end of this section.

The November 2002 baseline forecast as prepared by Global Insight (GI), the name for the merged DRI/WEFA, has a relatively slow recovery with a rebound in FY/04. Employment growth is slow to recover and the Federal Reserve doesn't increase interest rates until mid-summer 2003.

Gross Disposable Product (GDP)

GDP was negative for the second and third quarters of calendar year 2001 and FY/02 only had growth of 0.8%. In FY/03 the economy rebounds slowly to post 2.5% growth. Growth increases to 3.5% in FY/04. There is no real upward bounce as the economy comes out of this slowdown. FY/05 has strong growth of 4.1% with slight slowing to 3.7% and 3.2% in FY/06 and FY/07 respectively.

Employment and Productivity

As the economy moved into recession, unemployment jumped from the historically low rates of around 4% experienced from FY/99 to FY/01. Unemployment in FY/02 averaged 5.5%, and in FY/03 is expected to average 5.9%. Rates fall, but slowly and not by much; FY/04 is 5.6% and the remainder of the forecast is about 5%. This is high compared to the 4% of the near past, but closer to the estimated non-inflationary full employment rate.

Employment growth slowed in FY/01 to 1.3%, in FY/02 employment suffered a decline of 1%. Growth in employment remains low, with 0.0% growth in FY/03 then 1.9% in FY/04 and 2.2% in FY/06. In FY/07, growth slows to 1.1%. Manufacturing employment declines until FY/04. In FY/05 growth is 1% then declines to 0.5% in FY/06 and FY/07. Growth in GDP is driven more by productivity than employment growth. This has been called the jobless recovery.

Inflation

As measured by the consumer price index for urban consumers, inflation was 3.4% in FY/01. With the weak economy, inflation declined to 1.8% in FY/02. Moderate increases of 2% to 2.5% per year are expected for the remainder of forecast. Inflation is held in check, as there is little wage pressure as employment grows slowly and productivity increases hold costs down.

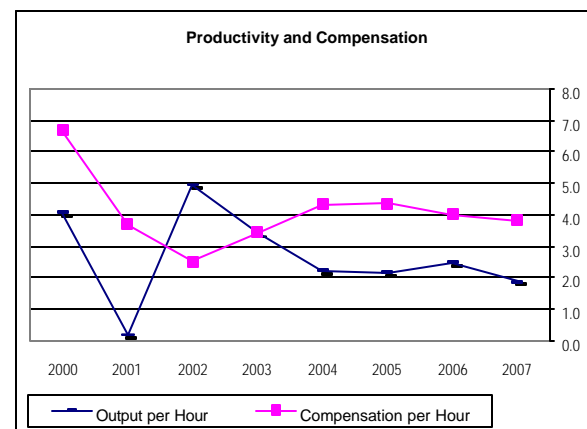
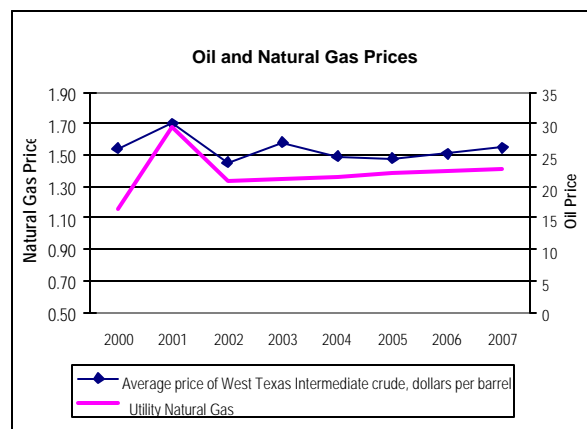
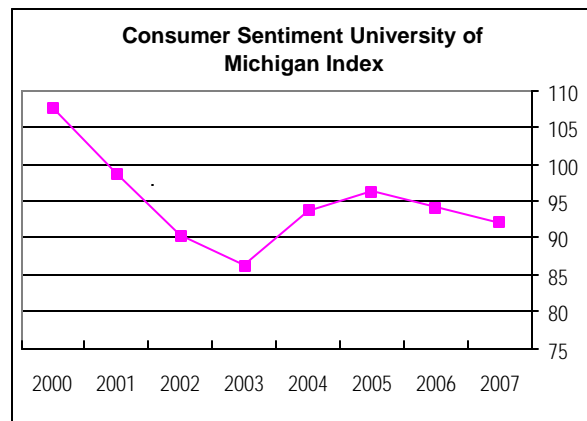
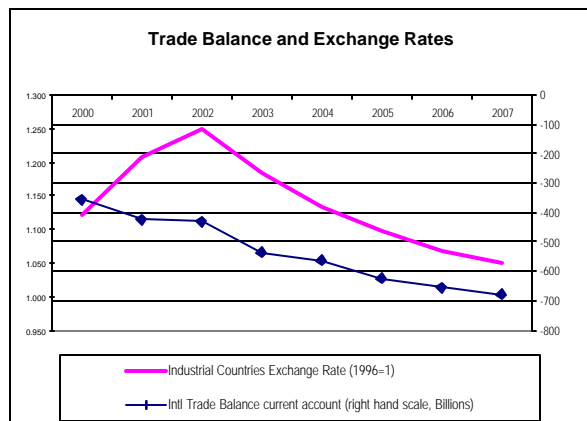
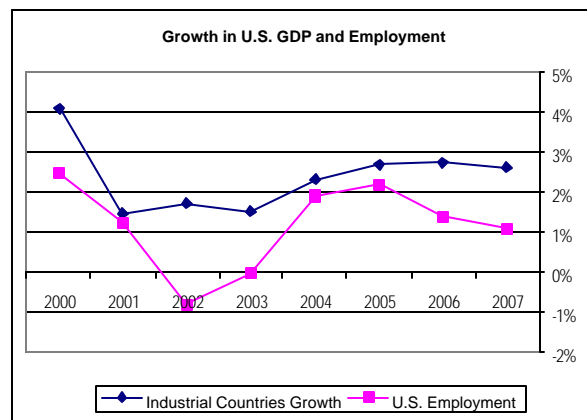
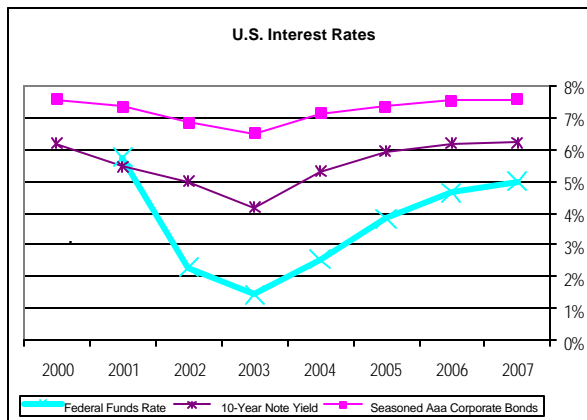
Interest Rates

The Federal Reserve Board (FRB) has cut rates to the lowest level since the 1960s. The Federal Fund Rate declined from 6.5% to 1.25%. The forecast has the rate staying at this low level until the summer of 2003 when the FRB is projected to increase rates. Rates slowly increase reaching a long-term rate of 5%. Long-term rates as measured by 10-year treasury bonds reach a low of 4% in summer of FY/03 and increase slowly to 6% in FY/06. High quality corporate bonds (seasoned Aaa) generally follow the ten-year treasuries, with a higher rate accounting for risk. The difference between the two rates reaches a maximum of 2.5% in the last quarter of 2002 declining to and remaining at 1.4% by the end of 2004.

World Economy

The U.S. current trade account balance continues to worsen, as Japan and Europe continue slow growth and the U.S. continues to import. The U.S. dollar weakens somewhat in relationship to major industrialized countries but not enough to slow imports and lower the prices of U.S. exports.

U.S. Economic Variables and Forecast By Fiscal Year—Forecast begins in FY/03



Albuquerque Economy

The slowdown of the national economy has affected Albuquerque. The unemployment rate increased from around 3% in FY/01 to 5.1% in FY/02 and FY/03. Even so, this was better than the U.S. economy. Employment in Albuquerque did not grow in FY/02 and in FY/03 growth is anticipated at 0.4%.

The largest sectors in the Albuquerque economy are trade (retail and wholesale) and services. These sectors account for about 56% of employment in 2000 and 75% of the taxable gross receipts generated in the city. A table at the end of this section provides sector employment numbers for FY/00 to FY/07.

Retail Trade

Employment growth in the retail trade sector slowed from 2.4% in FY/01 to 0.8% in FY/02. The Bureau of Business and Economic Research (BBER) expects growth in FY/03 and FY/04 to remain weak at about 1% and 1.2% respectively. Growth then increases to around 2% for the remainder of the forecast.

Services

Growth in the services industry in FY/01 was 2%, decreasing to 0.5% in FY/02. Growth in FY/03 is expected at 1.7%, increasing to 2.8% in FY/04 and remaining just above 2% for the remainder of the forecast.

Services is a very broad based sector including lodging, personal business, repair, amusement and recreation, health, engineering and management services (including Sandia National Labs), motion pictures, and membership organizations. The jobs vary from unskilled minimum wage jobs to highly paid professionals.

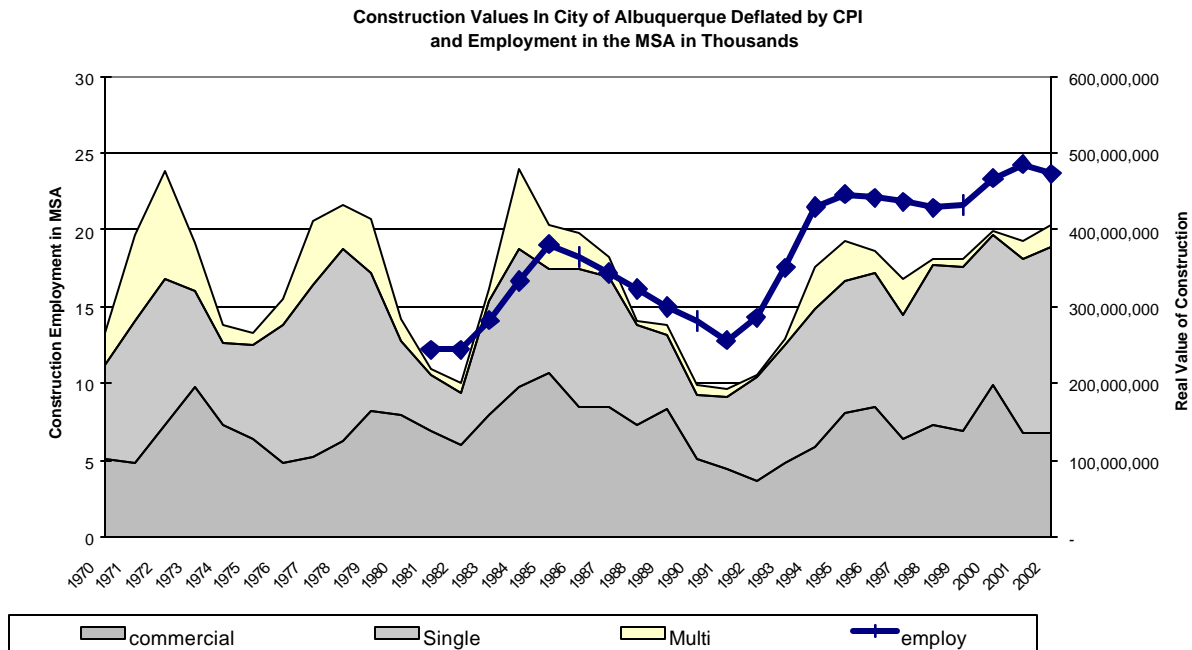
An important subcategory of the services sector is health services. Albuquerque is a regional center for medical services and draws people throughout the area. FY/01 saw no growth in employment in this sector, in part due to changes in Medicare reimbursement policies. Sun Healthcare's bankruptcy filing in October of 1999 added to slow growth in this sector. Growth reached nearly 5% in FY/02, slowing to 2.5% by FY/07.

Tourism is represented in a number of sectors. September 11th hit the lodging industry hard across the country. The lodger's tax receipts declined by nearly 10% in September 2001 compared to the previous year. In October, the month of the Albuquerque International Balloon Fiesta, lodger's tax receipts were down 2%. Lodger's tax for FY/02 ended somewhat stronger, but was still down 1.5%. Employment in lodging services grew 4.4% in FY/01, slowed to 1.4% in FY/02 and is expected to decline 0.9% in FY/03. Recovery is slow, increasing to 1.4% in FY/07.

Construction

Construction is typically cyclical, with large swings in building and employment. The following chart shows the real value of single-family, multi-family, and non-residential new permits from 1962 to 2000 (deflated by the CPI; 100=1982-84). Four distinct peaks occur in 1973, 1979, 1985 and 1995. The decline from the 1995 peak has been minimal and value of construction is near this level again. The past cycles were accentuated by large buildups of multi-family housing, in part, to capture tax breaks that are no longer available. After overbuilding, vacancy rates would increase dramatically and apartment building would cease for several years. Since 1995, single-family construction has made up a larger share of total construction. In 2000, single-family housing was somewhat slower, but there was a spurt in non-residential construction including several large City of Albuquerque projects. In 2001, single-family units permitted exceeded the 2000 levels by

23%. Permits issued through November 2002 exceeded all of 2001 and, in comparison the same 11 months, permit numbers are up 7%. The number of multi-family units permitted is 1,200 units through November of 2002 compared to 792 in 2001. Commercial permitting has slowed, though there are some large projects underway. The value of commercial permits is down 5%, comparing the first 11 months of 2002 to the same period in 2001. Included in this measure of commercial construction are additions and alterations. While the total value of commercial permits declined 5%, the value of new permits declined by 15%. Some of the largest projects are renovations. One of the largest renovations permitted was by Philips Semiconductor. Unfortunately, Phillips only did part of this expansion and now plans to close in the fall of 2003. While there is room for optimism, there is still concern of a return to a construction cycle as in the past.



Employment in the construction sector was very strong in 2000-2002, driven in large part by the Intel project and the Big-I reconstruction project. The Big-I was completed ahead of schedule in June 2002, and the Intel project was finished in June of 2002. As these jobs were lost we saw a

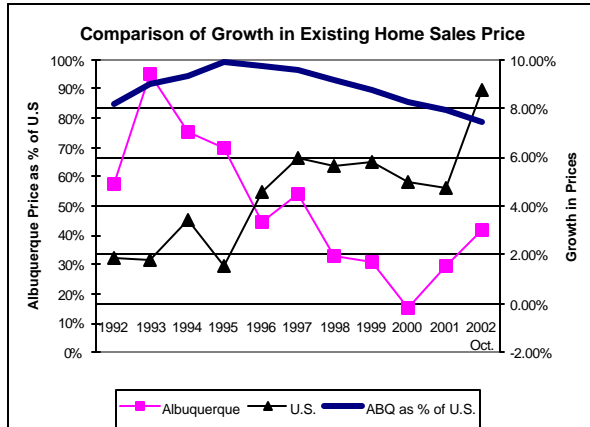
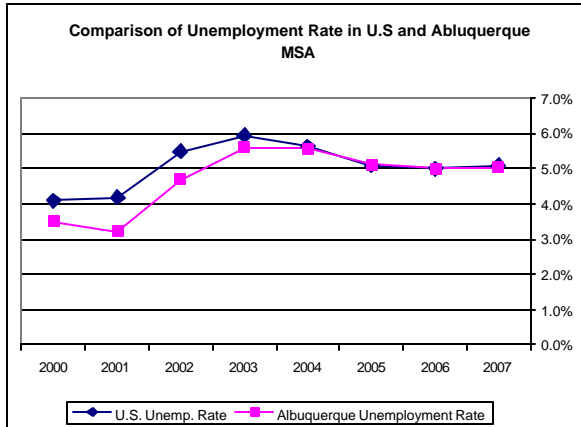
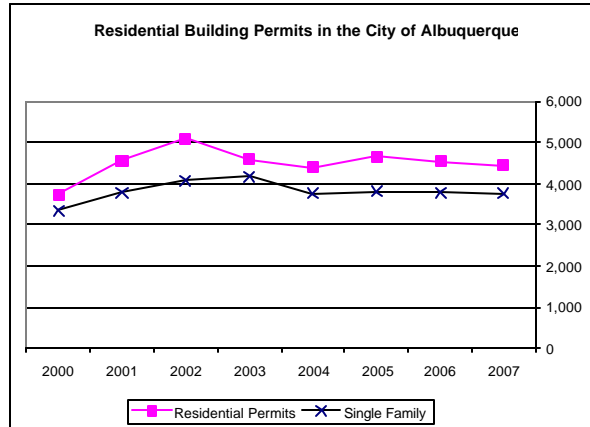
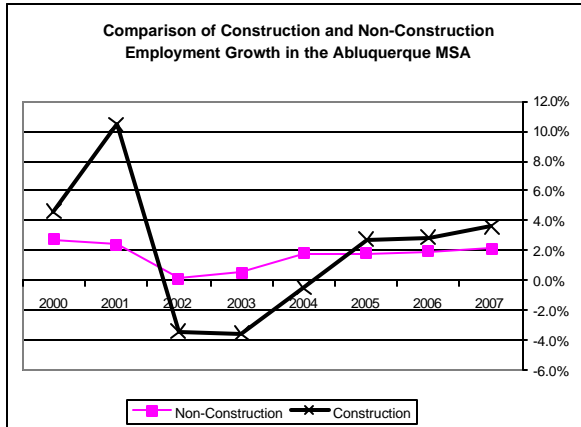
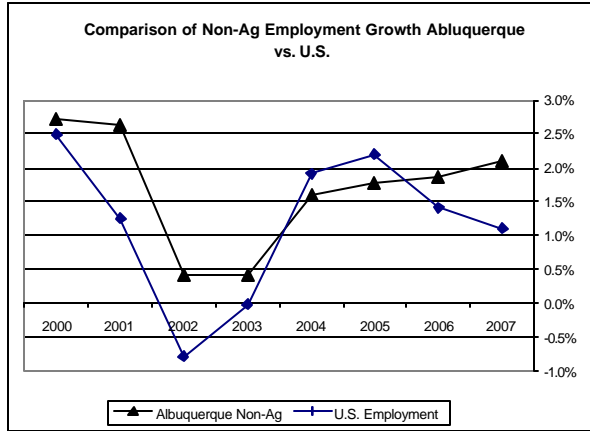
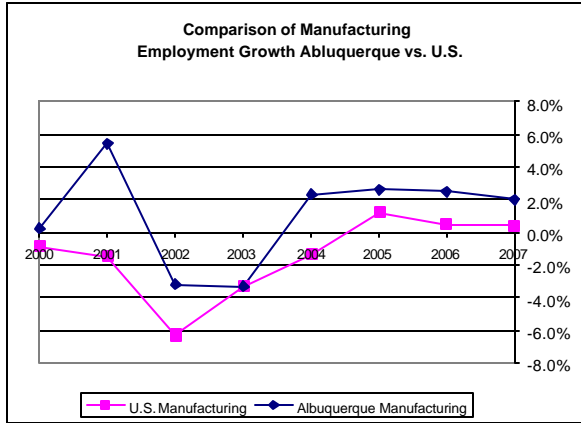
reduction in employment in FY/02 and some additional losses in FY/03. BBER forecasts a reduction of 3.5% in FY/03, for a loss of 1700 jobs from FY/01 to FY/03. As there were around 3,000 jobs in the Big I and Intel projects at peak, the construction sector is employing more people in other jobs.

Albuquerque MSA Employment (\$000)								
	Historical			Forecast				
Fiscal Years	2000	2001	2002	2003	2004	2005	2006	2007
Non-Agricultural	349.44	358.67	360.17	361.71	367.48	374.04	381.04	389.11
Retail Trade	65.21	67.17	67.68	68.37	69.19	70.75	72.13	73.48
Services	112.43	114.71	115.29	117.23	120.50	123.21	126.01	129.19
Manufacturing	27.20	28.68	27.76	26.64	26.95	27.13	27.60	27.99
Construction	22.20	24.52	23.68	22.85	22.75	23.38	24.05	24.91
Government	67.33	68.03	70.05	70.95	72.01	73.03	74.04	75.24
TCU	19.60	19.80	20.18	19.90	20.00	20.04	20.35	20.75
FIRE	18.78	19.28	19.53	19.72	19.85	20.06	20.37	21.02
Military	6.57	6.48	6.62	6.77	6.87	6.88	6.87	6.86
Employment Growth Rates								
Non-Agricultural	2.60%	2.64%	0.42%	0.43%	1.60%	1.79%	1.87%	2.12%
Retail Trade	1.10%	3.00%	0.76%	1.03%	1.19%	2.26%	1.95%	1.86%
Services	3.80%	2.02%	0.51%	1.68%	2.79%	2.24%	2.27%	2.53%
Manufacturing	0.10%	5.42%	-3.20%	-4.02%	1.13%	0.68%	1.74%	1.40%
Construction	4.60%	10.44%	-3.40%	-3.52%	-0.43%	2.75%	2.88%	3.60%
Government	1.60%	1.04%	2.96%	1.29%	1.49%	1.42%	1.39%	1.61%
TCU	10.00%	1.02%	1.89%	-1.37%	0.52%	0.17%	1.57%	1.96%
FIRE	1.90%	2.66%	1.30%	1.00%	0.65%	1.09%	1.52%	3.19%
Military	-1.70%	-1.33%	2.10%	2.34%	1.49%	0.16%	-0.20%	-0.18%

Source: Bureau of Business and Economic Research November 2002 Baseline Forecast

LOCAL ECONOMIC VARIABLES HISTORY AND FORECAST

By Fiscal Year--Forecasts begin in FY/03



Update for Recent Events

The forecasts of the economy provided above are from November 2002. Since November, events have created a high level of uncertainty of any forecast. In part led by worries about the impact of war with Iraq, consumer confidence and the stock market have fallen. U.S. economic growth was slow in the 2^d quarter of FY/03 and forecasts for the 3^d and 4th quarters are now smaller. Adding to worries are increases in oil prices that will limit consumer consumption on other products and have a negative impact on tourism. While the Albuquerque economy has improved, the uncertainties are very great and no changes are made to the forecast of gross receipts taxes at this time.

